

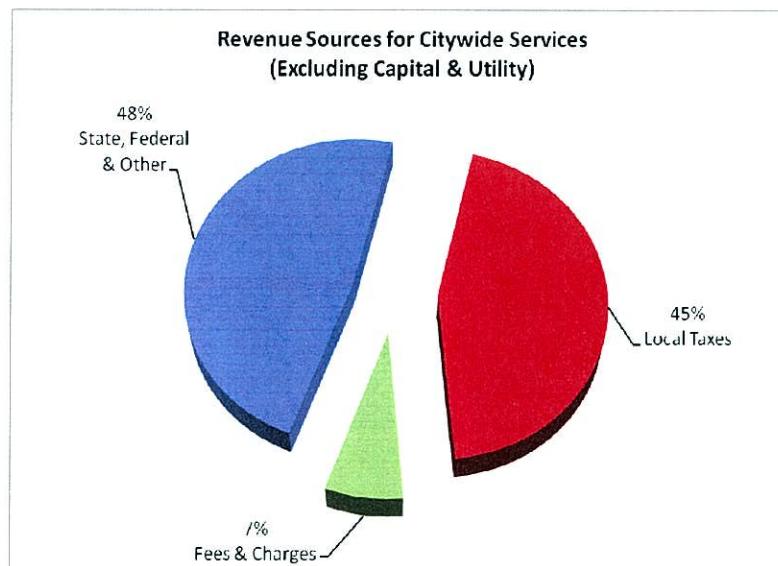
REVENUE ANALYSIS

This section of the FY 2011-2012 Operating & Capital Budget provides an overview of the revenue sources that serve as the basis of the City's budget, the methodologies used to develop revenue estimates, and the economic conditions impacting local revenues.

The Department of Budget and Strategic Planning is responsible for projecting the amount of revenue that will be available to deliver high quality programs and services to the citizens of Suffolk. The Department performs a comprehensive analysis of all revenue sources that comprise the City's budget. This is a year round process that entails monthly tracking and evaluation and the preparation of detailed quarterly projection reports which are provided to the City Manager and City Council. In addition to quarterly revenue projections, the Department:

- Analyzes historic trends and monthly/year-over-year revenue collections
- Evaluates changes in real estate assessed values and tax exemption programs
- Compiles direct estimates from city departments and State/Federal agencies
- Reviews State and Federal legislation that may have an impact on local governments
- Consults with local officials and department heads to include the City Assessor, the Commissioner of the Revenue, the Treasurer, the Director of Finance, and others on budget related matters of impact
- Coordinates the preparation of a five year growth model with the City's financial consultant for provision to the City Manager and City Council

The City receives revenue from three primary sources: 1) local taxes, 2) fees and charges, and 3) State and Federal funding. Excluding capital and utility revenue, approximately 48% of the City's revenues are derived from the State and Federal government, 45% from local taxes, and 7% from fees and charges for services.



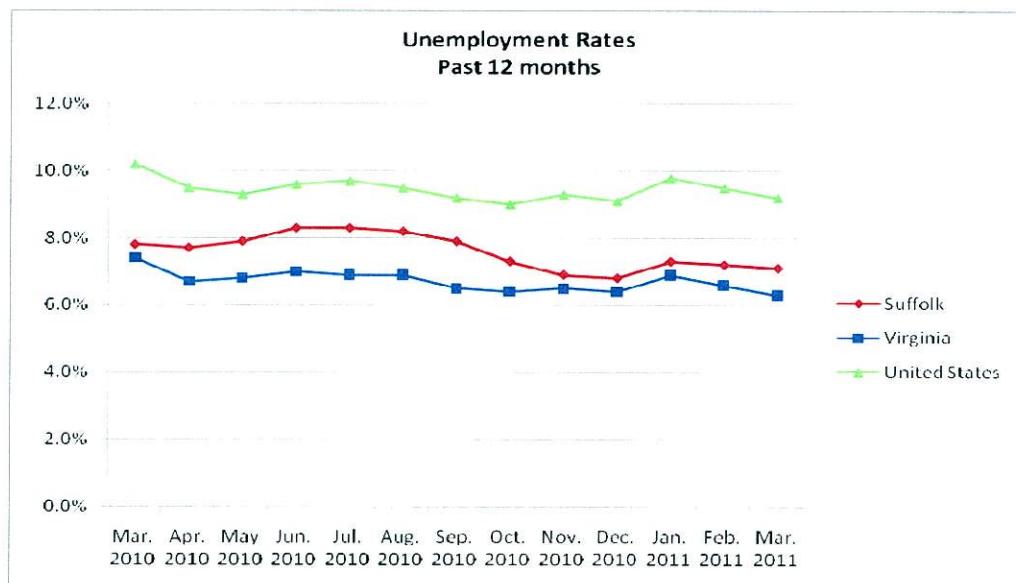
Since the City is dependent upon revenues from local, State, and Federal sources to provide services to its citizens, the City's financial position is impacted by economic conditions at each level. An overview of the national, state, and local economy is summarized in the sections that follow.

The National Economy

The national economy is beginning to slowly recover from the worst economic recession since the Great Depression. Positive signs of recovery include employment growth, business and consumer spending, and exports. Broad-based hiring in the manufacturing, health care, professional services, and restaurant sectors have helped lower the national unemployment rate to 9.2% in March 2011, down from 10.2% a year earlier. Business spending increased 5.6% in 2010 and consumer spending levels rose 1.8%, up from -1.2% in 2009. American exports also have strengthened posting a 17% gain in 2010 as the price of the dollar has made goods cheaper to purchase overseas.

Notwithstanding these positive indicators, the national economy is still confronted by numerous challenges. The housing market continues to languish as a result of large inventories of unsold homes, distressed property sales, and foreclosures. Average home prices are expected to decline an additional 4% before bottoming out. Employment growth, despite recent improvements, is not occurring fast enough to quickly erase the more than 8 million jobs lost during the recession. The number of part-time workers who want a full-time job is also holding steady and average hourly earnings are not keeping up with inflation. Some economists believe that it may take five or six years for the job market to normalize. Energy prices present yet another obstacle as gas prices are expected to hit \$4 per gallon by summer 2011. Unrest in the Middle East and Japan due to recent current events also threatens to cause even greater spikes in oil prices.

**Insert Unemployment Rate Chart
Past 12 Months**

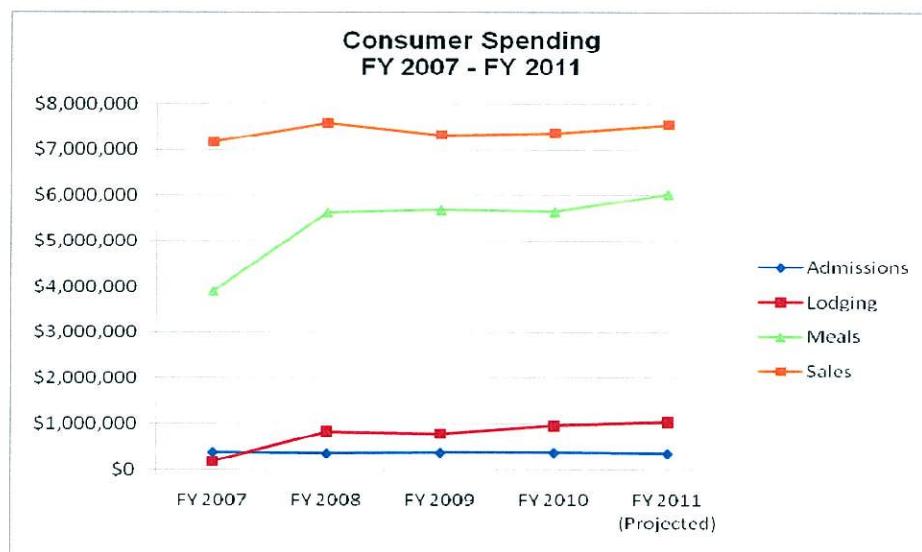


The State Economy

The State economy is also slowly improving fueled by higher than anticipated income tax returns and consumer spending. Income tax collections are projected to grow 6.5% and 5.5%, respectively, in FY 11' and FY 12'. Likewise, sales tax revenues are outpacing projections in FY 11' and are projected to increase 3.3% in FY 12'. State revenue collections have exceeded the previous year's amount 12 out of the last 13 months. The State economy does have its own set of challenges. Although Virginia's unemployment rate of 6.3% is lower than the national average (9.2%), job growth is extremely slow. The housing market is also contending with extensive housing inventories, distressed sales, and foreclosures, which are keeping average housing prices down. As a result, recordation tax revenues are projected to fall to their lowest level since FY 01'.

The Local Economy

Suffolk's local economy has fared better than other jurisdictions in dealing with the effects of the economic recession. Consumer spending has remained consistent over the last four years as illustrated by local tax collections including admissions, lodging, meals, and sales taxes. This is attributable to the 32.8% increase in population over the last 10 years which has facilitated significant growth in retail, restaurant, and lodging establishments.



*Admissions, Lodging, Meals, and Sales Tax Revenues

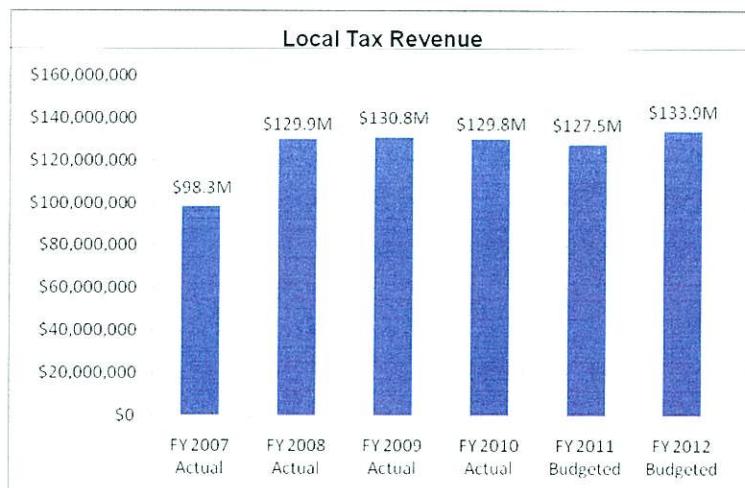
The greatest challenges for the local economy include employment growth, consumer and business spending on personal property, and the housing market. Over the last four years, Suffolk has seen its unemployment rate more than double from 3.3% in 2007 to 7.7% in 2010. Job losses have been most prevalent in the accommodation and food services, administrative support and waste management, construction, health care and social assistance, and manufacturing industries. Over the last two years, the City has experienced a decline in spending on personal property (airplanes, boats, cars, trucks, machinery and tools, etc.). The local housing market is also contending with high inventory, distressed sales, and foreclosures which are impacting sales prices and new construction. The assessed value of residential properties has declined 5.5% in the last two years.

A significant factor that will impact the local economy over the next 12 months is the disestablishment of the U.S. Joint Forces Command (JFCOM), a contributor to tax revenue and population growth in the City over the past 10 years. The Department of Defense has announced that the Suffolk operation will be reduced approximately by half; reducing the workforce from 2,200 to 1,000. This action is speculated to have spin-off effects on the housing market and lodging, retail, and restaurant sales in close proximity to the JFCOM facilities in northern Suffolk. The overall impact on Suffolk's modeling and simulation industry cluster is also a concern.

Despite this setback, the local economy appears poised to continue growing stronger. The City's abundance of land, location near regional transportation routes, low tax rates, and overall quality of life make Suffolk attractive for commercial and residential development. The local housing market is showing signs of improvement as witnessed by the 10% increase in housing transactions and 2% rise in median residential sales in 2010. New and expanding businesses also continue to invest in Suffolk. In 2010, the Department of Economic Development announced the creation of 1,088 jobs and \$71.1 million in capital investment by existing and new businesses.

Local Revenue

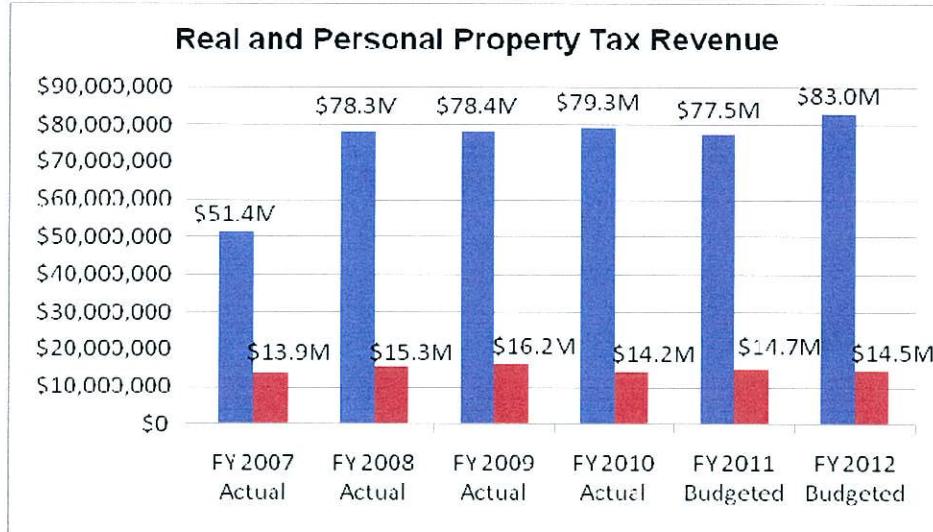
Local tax revenue is comprised of general property taxes and other local taxes which account for 79% of all General Fund revenues. A 5% increase in local tax revenue is projected in FY 12' to \$133.9 million. This is primarily driven by the real estate tax rate adjustment of \$.06 to \$.97 per \$100 of assessed value to offset the 5.5% decline in real estate assessed values over the last two years. Motor vehicle license fees are also being adjusted upward which will result in an 18% increase in this revenue source. Other local taxes contributing to the increase in local tax revenue in FY 12' include the bank stock tax (67%), lodging tax (11%), and meals tax (8%).



General Property Taxes

General property taxes account for 60% of General Fund revenues and consist of taxes on real estate; personal property including airplanes, boats, cars, trucks, trailers, mobile homes, recreational vehicles and machinery and tools; public service corporation taxes; and penalties and interest. General property tax revenue is projected to increase 6% in FY 12' as a result of the real estate tax rate adjustment from \$.91 to \$.97 per \$100 assessed value. Personal property tax

revenue is projected to decline slightly in FY 12' with anticipated impacts to sport utility vehicle values due to increasing gas prices.

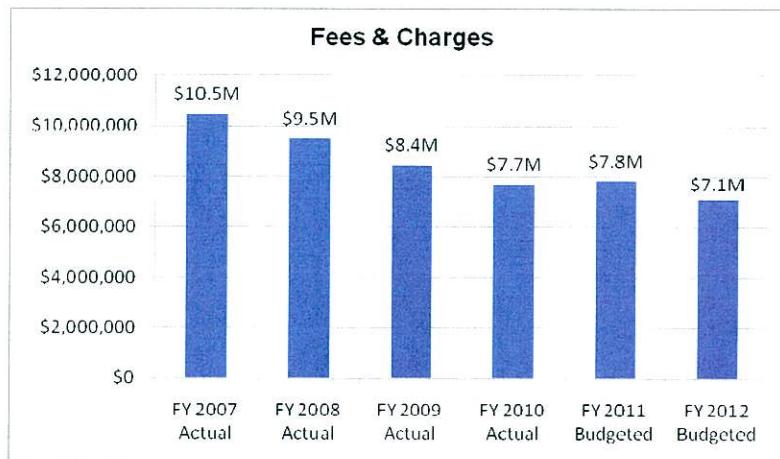


Other Local Taxes

Other local taxes include all locally assessed taxes other than property taxes. Revenue within this category is projected to increase 3% in FY 12'. Motor vehicle license fee revenue is projected to increase 18% as a result of fee adjustments. Other local taxes with projected gains based on trends include the bank stock or franchise tax (67%), lodging, (11%), and meals (8%) taxes.

Revenue from Fees and Charges

Revenue from fees and charges account for roughly 4% of all General Fund revenue and consist of permits, privilege fees, and regulatory licenses; fines & forfeitures; revenue from the use of money and property; charges for services; miscellaneous revenue; and recovered costs. Approximately \$7.1 million in revenue is projected from fees and charges in FY 12'. This represents a 9% decrease over the previous year. As shown in the chart below, revenue from fees and charges has declined four out of the last five years.



Permits, Privilege Fees, and Regulatory Licenses

Revenue from permits, privilege fees, and regulatory licenses is projected to decrease 16% in FY 12'. The downturn in the housing market has severely impacted this revenue category as land use application fees (-70%), land transfer fees (-20%), and building permit revenue (-17%) are experiencing significant declines.

Fines & Forfeitures

The fines and forfeitures category is comprised of General District Court fines, parking fines and violation fees, and false alarm violation fees. Revenue from fines and forfeitures is projected to increase 11% in FY 12'. This is primarily due to General District Court fines which are trending higher than previous year estimates.

Revenue from Use of Money and Property

Revenue from the use of money and property consists of interest earned on investments, bond proceeds, and the rental of city facilities. An overall 14% decrease is projected in this category in FY 12'. This is mainly the result of the transfer of airport hangar tie-down rentals to a newly created aviation services special revenue fund. Revenue from interest on investments is also an area of decline as national interest rates on investments remain extremely low.

Charges for Services

Revenue from charges for services is projected to decrease 16% in FY 12'. This is primarily the result of the transfer of airport fuel sales to the newly created aviation services special revenue fund. An 18% decline in EMS fee revenue is also a major factor. The adopted FY 12' budget also adjusts recreation and special event fees resulting in a 65% increase in this revenue category.

Miscellaneous Revenue

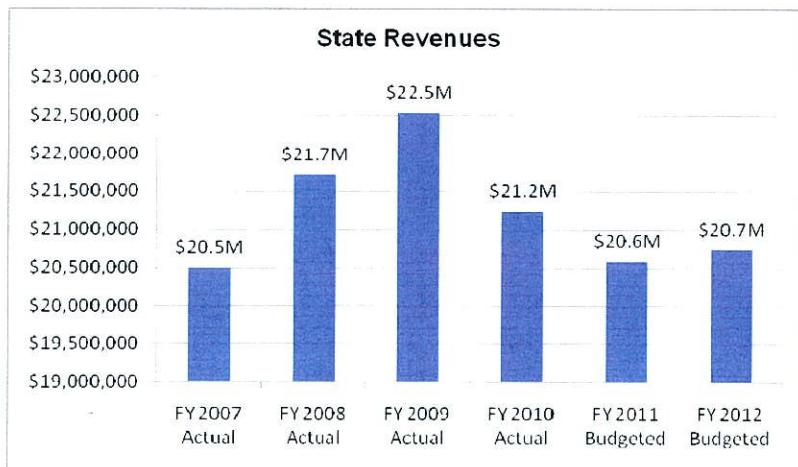
Miscellaneous revenue is comprised of delinquent tax collection fees; automated refuse container sales; tourism gift shop sales; gifts, donations, and contributions as well as payments from the Suffolk Redevelopment and Housing Authority. Miscellaneous revenues are projected to increase 12% in FY 12'.

Recovered Costs

Recovered costs include reimbursements from other localities, the Suffolk School Board, the City's dumpster service, and the Department of Social Services. Recovered cost revenue is projected to increase 38% in FY 12'.

State Revenue

The City receives revenue from the Commonwealth of Virginia in the form of non-categorical aid, shared expenses, and categorical aid. A slight increase (1%) in State revenue is projected in FY 12' to \$20.7 million. Revenue from the Commonwealth of Virginia represents 12% of all General Fund revenue.



Non Categorical Aid

The City of Suffolk receives various sources of non-categorical aid from the Commonwealth of Virginia including motor vehicle carrier, mobile home titling, rolling stock, deeds/grantors, and vehicle rental tax revenue, as well as House Bill 599 (police operational aid) and personal property tax relief funding. Non-categorical aid will decrease by approximately \$60,000 in FY 12'. The Commonwealth of Virginia continues to require localities to return a portion of state aid for State supported local functions via a lump sum payment and/or elected reductions. The estimated return of State aid by the City of Suffolk is \$374,601.

Shared Expenses

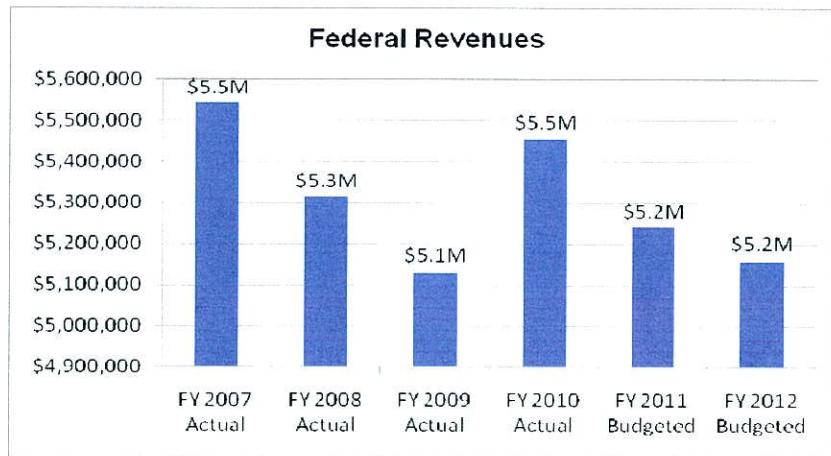
The Commonwealth of Virginia's Compensation Board provides funding to the City of Suffolk for the shared expenses of operating State assisted local offices including the offices of the Commonwealth's Attorney, Sheriff, Commissioner of the Revenue, Treasurer, Voter Registrar, and Circuit Court Clerk. A 3% increase in funding for State shared expenses is projected in FY 12' based on estimates provided by the Compensation Board.

Categorical Aid

The City receives categorical aid from the State for specific locally administered programs and services including social service programs, public safety, courthouse maintenance, and library services. A 3% increase in categorical aid is projected in FY 12'.

Federal Revenue

The City receives Federal revenue for emergency services, the food stamp program, and temporary assistance for needy families. Level funding is estimated in FY 12' from the Federal government.



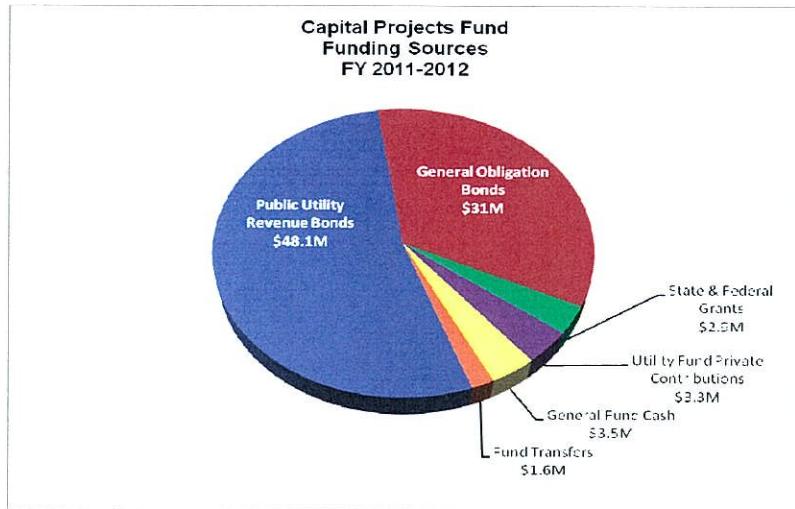
Other Funds

In addition to the General Fund, the City has a capital projects fund, debt service fund, six special revenue funds, three enterprise funds, three internal service funds, and a discreetly presented component unit, the Schools Fund, to account for the proceeds of revenue sources that are legally restricted to expenditures for specified purposes.

Capital Projects Fund

The Capital Projects Fund accounts for the financial resources used to acquire or construct major capital facilities other than those normally financed by proprietary fund types. Each year, the City Council adopts a Capital Improvement Plan (CIP) which identifies major capital projects for a 10 year period. Projects identified in the first year of the CIP are recommended for funding in the Capital Projects Fund budget which is adopted by the City Council as part of the budget process.

The Capital Projects Fund budget for FY 12' is \$90.4 million. This represents a 148% increase over FY 11' as a number of capital improvement projects were delayed in previous years. The Capital Projects Fund derives revenues from the issuance of general obligation and revenue bonds, State and Federal grants, and the transfer of funds from the General Fund. The Capital Projects Fund is supported by \$48.1 million in public utility revenue bonds, \$31 million in general obligation bonds including \$7.5 million Qualified School Construction Bonds for the Southern Elementary School project, \$3.5 million in General Fund cash, \$3.3 million in utility fund private contributions from the Western Tidewater Water Authority (WTWA), \$2.9 million in State and Federal grants, and \$1.6 million in fund transfers.



Debt Service Fund

The Debt Service Fund is used to account for the payment of general long term debt principal, interest, and related costs associated with projects that are debt financed. Revenues in this fund are derived through the transfer of funds from the General Fund, Route 17 Special Taxing District Fund, and the Consolidated Grants Fund. The Debt Service Fund budget for FY 12' is \$25.1 million or 11% over the previous year.

Special Revenue Funds

Special Revenue Funds provide for revenue derived from specific sources other than major capital projects that are restricted by legal and regulatory provisions to finance specific activities. The adopted FY 12' budget provides for the addition of the Aviation Facilities special revenue fund, an operational reporting transfer from the City's General Fund.

Downtown Business Overlay Taxing District

The Downtown Business Overlay Taxing District (DBOD) provides for revenues and expenditures related to enhanced services provided in a specifically designated area of downtown Suffolk. Revenues are derived from an additional real estate tax levy of \$.125 per \$100 of assessed value on properties located within the district's boundaries. The DBOD budget for FY 12' is \$200,000. There is no anticipated change in DBOD revenue in FY 12'.

Road Maintenance Fund

The Road Maintenance Fund accounts for revenues and expenditures related to the maintenance of roads and bridges in the City of Suffolk. Revenues are derived primarily from the State Urban Street Maintenance Program. The Road Maintenance Fund budget for FY 12' is approximately \$20 million or 5% greater than the previous year based on increased compensation from the State for additional roadway miles.

Consolidated Grants Fund

The Consolidated Grants Fund is used to account for revenues and expenditures involving governmental grant program operating expenditures. The Consolidated Grants Fund budget for FY 12' is \$1.4 million or 3% less than the previous year. The City receives CDBG and HOME

grant allocations from the U.S. Department of Housing and Urban Development as well as additional awards provided from the State and Federal government during the year to assist with projects in the City.

Law Library Fund

The Law Library Fund provides for the operation, maintenance, and purchase of legal materials for the Suffolk Law Library. Revenues are obtained through the collection of fees on court cases processed in the Circuit and General District courts. The Law Library Fund budget for FY 12' is \$42,520 or 12% less than the previous year based on trending.

Route 17 Special Taxing District Fund

The Route 17 Special Taxing District Fund provides for revenues and expenditures related to enhanced economic development and transportation services provided in a specifically designated area of northern Suffolk. Revenues are derived from an additional real estate tax levy of \$.26 per \$100 of assessed value on properties located within the district's boundaries. The Route 17 Special Taxing District Fund budget for FY 12' is approximately \$1.35 million. This represents a 4% decrease over the previous year due to the decline of real estate values within the district.

Aviation Facilities Fund

The adopted FY 12' budget provides for the establishment of the Aviation Facilities Fund to account for the revenues and expenditures required for the operation and maintenance of the Suffolk Executive Airport. The Aviation Facilities Fund budget for FY 12' is approximately \$1.2 million. The Fund's revenues are comprised of fuel sales (72%), rental of facilities such as airport hangars (19%), and the transfer of funding support from the General Fund (9%).

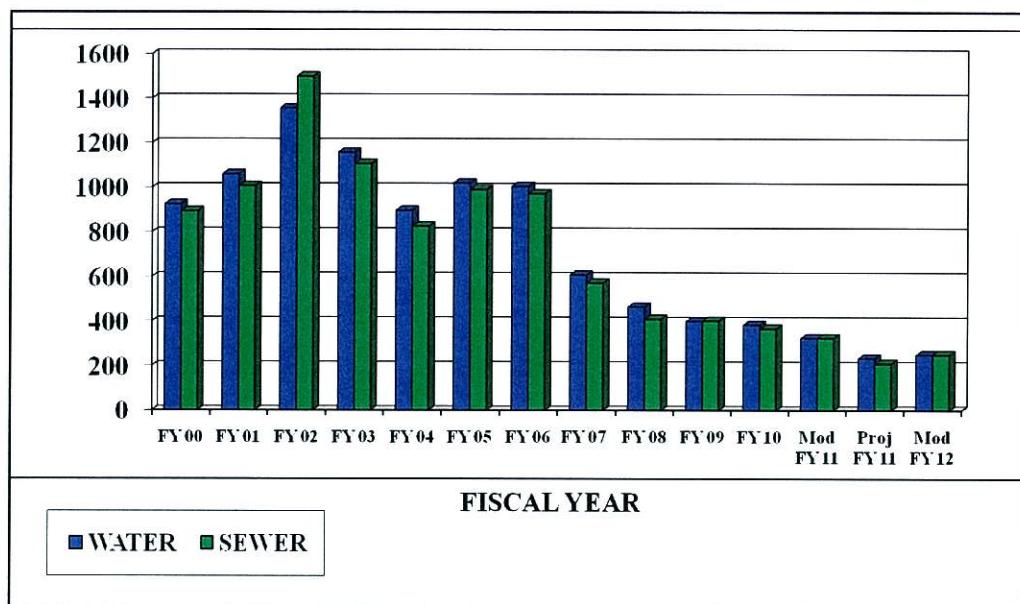
Enterprise Funds

Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises. The intent of enterprise funds is for the costs of providing goods or services to the general public to be financed or recovered primarily through user charges. The adopted FY 12' budget provides for the establishment of a refuse services enterprise fund.

Utility Fund

The Utility Fund accounts for the provision of water and sewer services to City residents. All activities necessary to provide such services are accounted for in this fund, including, but not limited to, administration, operation, maintenance, billing, collections, capital financing and related debt service and fixed assets of the water and sewer systems. The Utility Fund budget for FY 12' is \$37.4 million, an increase of approximately \$115,000 over the previous year. The downturn in the housing market continues to have a substantial impact on utility fund revenues. As illustrated in the chart below, 250 new equivalent residential unit (ERU) connections are projected in FY 12' based on current trends. This conservative estimate is less than the 325 ERUs projected last year and well below previous year figures. The reduction in new service connections along with regulatory mandates have resulted in adjustments to the water and sewer rates in FY 12' to \$6.43 and \$4.91 per 100 cubic feet, respectively.

Projected FY 12' ERUs



Stormwater Management Fund

The Stormwater Management Fund provides for the operation, management, construction and maintenance of stormwater facilities in the City of Suffolk as well as mosquito control services. A stormwater fee of \$5.24 per month is assessed on all residential units. Commercial businesses pay a multiple of the equivalent residential unit. The stormwater fee is a result of the Federal Clean Water Act of 1972 and amendments thereafter which require cities to make improvements to reduce the amount of pollution from stormwater runoff. No Federal or State funding is provided to offset the cost of the water quality measures. The Fund earns additional revenue through permit and inspection fees paid by developers based on a percentage of hard surface coverage required for development and the sale of services such as engineering services to other City funds. The FY 12' budget also provides for revenue from the transfer of funds from the stormwater fund balance. This funding will be used for stormwater capital projects. The Stormwater Management Fund budget for FY 12' is approximately \$5.3 million which represents a 38% increase over the previous year. However, stormwater revenue is essentially level when excluding the \$1.5 million transfer from the stormwater fund balance which will be used for capital funding needs.

Refuse Fund

The FY 12' budget provides for the establishment of a Refuse Fund for the City's refuse collection and recycling services. The fund is designed to be self-sustaining through revenue generated by an \$18.50 per month fee for refuse collection as well as the sale of trash cans. The Refuse Fund budget for FY 12' is \$6.9 million.

Internal Service Funds

Internal service funds are used to account for the operational cost of services provided to other city departments. Revenue is derived from charges on a cost reimbursement basis. The internal service funds include the Fleet Management Fund, Information Technology Fund, and Risk Management Fund.

Information Technology Fund

The Information Technology Fund accounts for the City's technology infrastructure including central computer and telephone systems. The cost of operating these systems is allocated to the various city departments and agencies on a cost reimbursement basis. The Information Technology Fund budget for FY 12' is approximately \$4.3 million which represents a 16% increase over the previous year. This increase is due to needed capital and software improvements to the City's technology infrastructure.

Fleet Management Fund

The Fleet Management Fund provides for the financing of vehicles and the maintenance, repairs, and fuel costs of the City. Operating costs are allocated to the various city departments and agencies including the Western Tidewater Community Services Board, Suffolk Health Department, Western Tidewater Regional Jail, and Suffolk Public Schools, who use fleet equipment on a cost reimbursement basis. The Fleet Management Fund budget for FY 12' is approximately \$12.3 million or 10% greater than the previous year. The increase is attributable to planned vehicle replacements and the addition of a fuel contingency to address spikes in gas prices beyond those budgeted.

Risk Management Fund

The Risk Management Fund provides for the funding and payment of auto, police liability, general liability, health and worker's compensation claims against the City, exclusive of the Suffolk Public Schools' employees. Charges to other funds are based on estimated claims for the year. The Risk Management Fund budget for FY 12' is approximately \$17.2 million which represents a 12% increase over the previous year. This increase is attributable to a slight rise in health care and workers' compensation claims and mostly due to costs associated with the funding of Other Post Employment Benefits (OPEB).

Discretely Presented Component Units

Discretely presented component units are reported separate from the primary government to emphasize that they are legally separate from the City. The Schools Fund is a discretely presented component unit.

Schools Fund

The Schools Fund provides for the activities of the Suffolk Public School System. The appropriation by the City consolidates the funding for the existing three School funds including the School Operating Fund, School Food Service Fund, and School Grants Fund. Revenues of the School Operating Fund are derived from local, State, Federal, and other sources. The School Operating Fund budget for FY 12' is approximately \$140.4 million. This represents a 2% decrease in revenue over the previous year. As shown in the chart below, as a percentage of the total Schools Fund, local support of schools has remained level over the last four years. State revenue has declined 5% and Federal support has increased 4%.

